

AVANT

AVANT Corporation

Financial Results Briefing for the Fiscal Year Ended June 2021

August 23, 2021

Event Summary

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[Participants]		
[Number of Speakers]	3	
	Tetsuji Morikawa	President, Group CEO
	Naoyoshi Kasuga	Director, Group CFO
	Kenji Nishimura	Corporate Communication Officer Manager
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Presentation

Nishimura: Hello, everyone. Thank you very much for taking time out of your busy schedule to join us today for the Financial Results Briefing for the Fiscal Year Ended June 2021 of AVANT Corporation.

My name is Nishimura, Corporate Communication Office Manager, and I will be leading the session today.

First, I have an announcement to make. On August 20, we submitted a correction to the Tokyo Stock Exchange for the financial results announced recently on August 6. A Group company made an error in calculating sales based on the percentage-of-completion method, resulting in an overstatement of sales by about JPY6.5 million. We apologize for the correction. As for today's briefing, the materials have been uploaded to the website at 13:00. Please refer to them.

We have 2 speakers today: Tetsuji Morikawa, President, Group CEO, and Naoyoshi Kasuga, Director, Group CFO. The 2 of them will explain the progress of our medium-term business plan, BE GLOBAL, and our financial strategy, and then we will take questions from you. The presentation will last 20 minutes, followed by a question and answer session, for a total of 1 hour.

Now, Morikawa, President, Group CEO, will present.

Overview of Avant Group Mid-term Business Plan

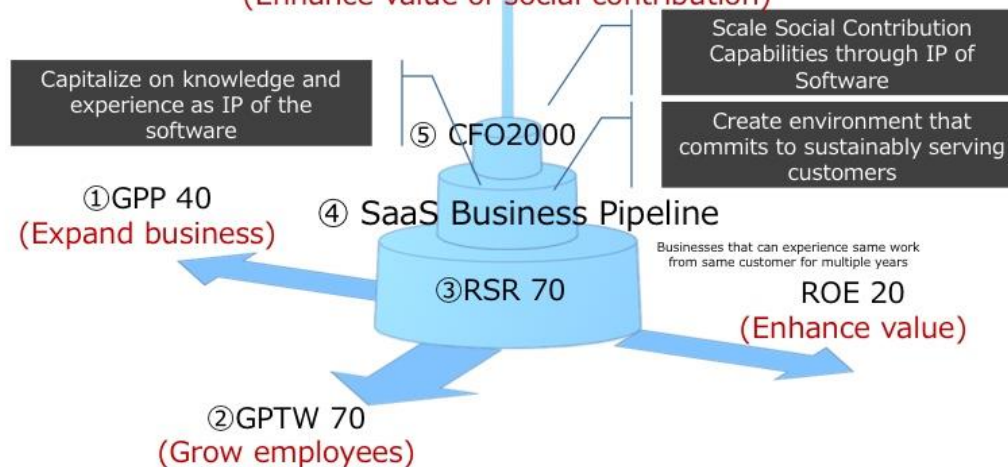
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- The Plan helps us to achieve the vision of BE GLOBAL under the management philosophy "Creation of a 100-year company".
- Three axes of challenges: business expansion, employee growth, and enhancement of corporate value
- We will create "de-facto," by expanding work environment where employee engages themselves in and incorporating our know-how into software

To BE a Sustainable GLOBAL Software Company

"Spreading Accountability"

Contribute to the sound development of society by providing an information environment that contributes to the enhancement of corporate value
(Enhance value of social contribution)



Morikawa: Hello, everyone. I'm Morikawa from AVANT.

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We have 3 main points today for an update of the mid-term business plan.

First, I would like to reconfirm the method and overview of the vision that we are going to realize during the current and next medium-term business plan. The second point is a summary of the business, including current market conditions and a review of the previous fiscal year. As the third and final point, I would like to talk about the gap-filling measures for this fiscal year.

First, for an overview of the AVANT Group's medium-term strategy, please see this diagram. Under the management philosophy of Creation of a 100-year company, which is to create a company that can develop sustainably, our main vision is to create a world-class software company.

In order to realize this vision, our mission is to contribute to our customers by providing an information environment that contributes to the enhancement of their corporate value through the concept of "spreading accountability," and to contribute to the sound development of society.

The picture below shows this vision and how we will realize the mission. One is to properly promote the growth of the business. In addition to simple business results, we also want to make sure that our employees were happy. Naturally, since we are entrusted with the assets of our investors, we will aim to make a return on those assets from the perspective of improving the corporate value.

This is the basic concept we would like to focus on the most.

There are 3 steps toward this vision. The first step is to make the business model recurring type. In other words, creating an environment that will facilitate the accumulation of various know-how by setting up the environment where we will commit to making sustainable contribution to the customers.

The next step is to make sure that the knowledge and experience gained through the environment is properly capitalized into software and other IP.

The final step is to create scale by contributing to as many customers as possible with the business itself centered on the software that is created from the previous step. That's the 3-step approach we're going to take.

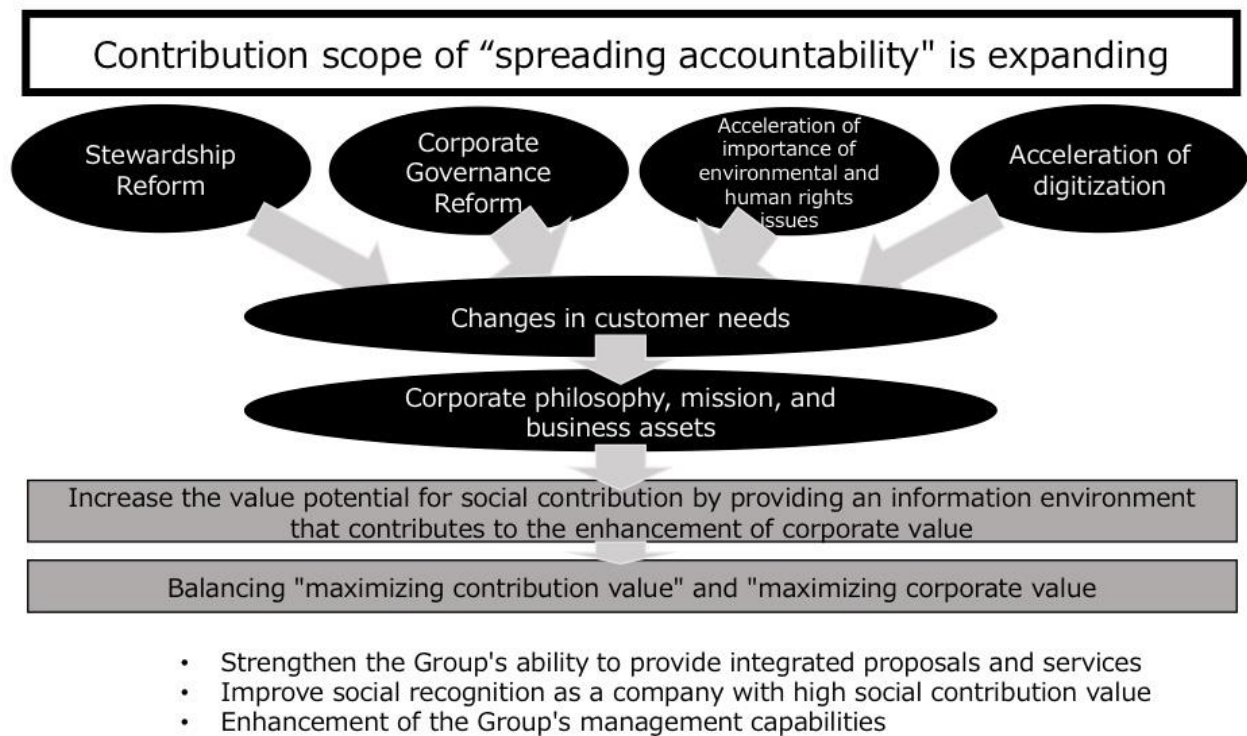
This is an overview of the direction in light of not only current mid-term business plan, but also next mid-term business plan, in which we are taking on a major challenge to build a world-class software company over a span of 10 years, starting from the beginning of the current mid-term business plan.

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This chart shows the current status of our mission and the areas of contribution to our customers, such as "spreading accountability."

Although this is a narrative, we are in an environment where there is a strong demand for disclosure and corporate accountability in areas such as stewardship reform, corporate governance reform, and ESG. In addition, with DX integrated to each of these areas, the area of contribution for "spreading accountability" for ourselves is expanding enormously.

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Increase Value through “Spreading Accountability”



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Against this market, this is our current status.

The AVANT Group lacks the ability to utilize not only software, but also IT and other technologies to realize this mission. We will contribute to the solution of such utilization issues through DX Consulting and SI business.

On the other hand, the problem of a shortage of human resources in these business areas is expanding rather than improving. Therefore, we will contribute to solving this problem with a Specialized BPO business in these areas.

We will combine the various know-how of these 2 businesses to promote the further utilization of business and IT and contribute to our customers by solving their problems with our own Business Software and SaaS business. By combining these 3 business models, we have created the current structure to respond to “spreading accountability,” i.e., the development of an information environment that contributes to the enhancement of our customers’ corporate value.

In order to make the best use of this structure, we need to accumulate this business know-how, and improve the ability to transfer it to software. Since this is the source of our value creation, we need to strengthen this area going forward. We are currently in the midst of working on this, and that is what we are focusing on at the moment.

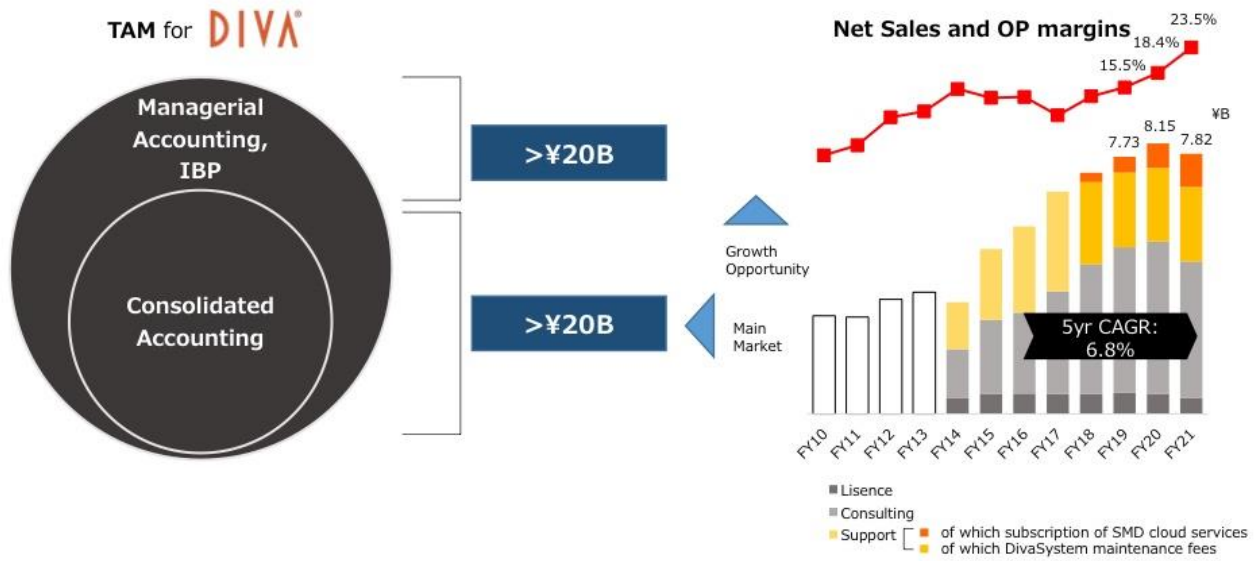
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- Group management has become inevitable for Japanese companies to improve efficiency, reorganize industries, and expand overseas. The consolidated accounting system market should grow at around 6% due to the need to accelerate the settlement of accounts and strengthen disclosure.
- As companies are required to ensure sustainability through DX, they need solutions to integrate and analyze various information for management decision making, execution and reporting. Management accounting and IBP market should grow by 30%



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I would like to add some information about the current status of each of the 3 business segments I just mentioned.

The first is our Consolidated Accounting business, which contributes to our customers mainly by providing our own software.

In general, the market is a growing market. After a brief period of stagnation, the market has returned to the growth market as needs for Group governance and other areas have increased.

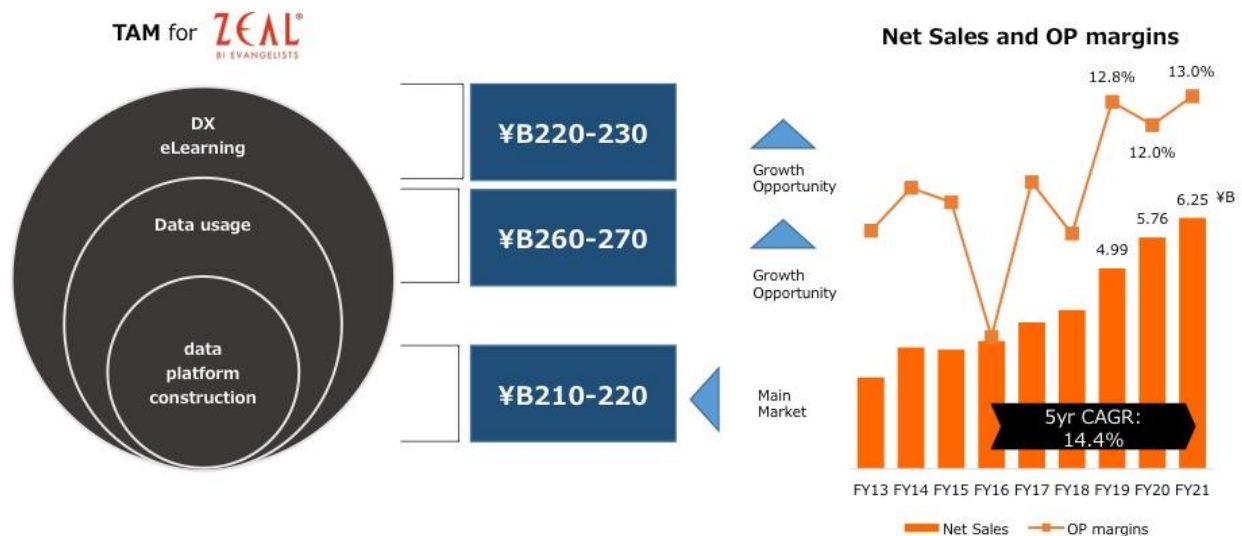
On the other hand, we are in the midst of the change from the traditional software business model to SaaS business model. As we are in the midst of this transition, we are currently experiencing a growth situation that is slightly behind the market. That is our current challenge.

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- It has been two years since the Ministry of Economy, Trade and Industry (METI) released its "DX Report" with the aim of overcoming the "cliff of 2025" and promoting digital transformation (DX). Even in the DX Report 2, which was released in light of the changes in the environment during this period, only 5% of companies have adopted DX in earnest.
- ZEAL provides comprehensive support for corporate digital transformation, from data platform construction to digital transformation human resource development.



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On the other hand, in the Business Intelligence business, the Ministry of Economy, Trade and Industry, and others have pointed out various ways in which DX should be further promoted to overcome the "cliff of 2025." In the overall environment, the need for digital transformation is extremely high.

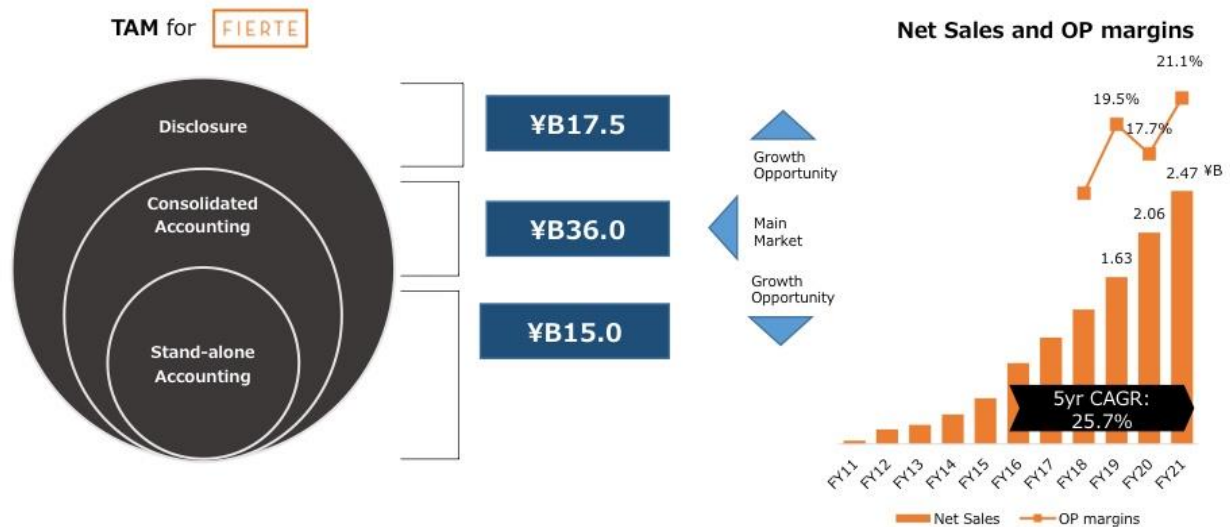
For a while, especially in H1 of last fiscal year, we were a little uncertain about future growth due to the impact of COVID-19, but we started to recover in H2. In terms of growth, we are on track to meet the expectations of the DX movement.

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- There is no other company that provides a wide range of outsourcing services from settlement of accounts to disclosure, and its strength lies in the know-how it has accumulated through the development, implementation and maintenance of consolidated accounting systems.
- The market is growing 20-25%, supported by needs for DX reforms, siloing, work style reforms, and enhanced governance.



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In the Outsourcing business, we have been able to maintain high growth by utilizing our software assets.

Although it is a very niche area, we have been able to secure high growth and profitability in this area and will continue to focus on expanding the area of outsourcing that we are currently able to achieve.

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Toward best breed of specialty businesses

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	Consolidated Accounting Related Business	Business Intelligence Business	Outsourcing Business
Strength	<ul style="list-style-type: none"> The know-how accumulated by specializing in the development, implementation, and maintenance of consolidated accounting systems Strong relationships with clients, mainly listed companies 	<ul style="list-style-type: none"> Know-how built up by specializing in business intelligence Strong relationships with major SIers and domestic and overseas vendors Unique training know-how for engineers 	<ul style="list-style-type: none"> The only company in the industry capable of providing outsourcing services ranging from financial statement preparation to disclosure Diversified services including cash management solutions and financial closing consulting
Weakness	<ul style="list-style-type: none"> Delay in converting know-how into software Ability to provide consulting services is still under development Relationship with Corporate Planning and CFO 	<ul style="list-style-type: none"> High dependence on flow business 	<ul style="list-style-type: none"> High dependence on man-day business
Opportunity	<ul style="list-style-type: none"> DX reform, ROIC management, ESG (sustainability) management 	<ul style="list-style-type: none"> DX reform, ESG management (visualization of financial and non-financial information) 	<ul style="list-style-type: none"> DX reform, work style reform, governance enhancement
Threat	<ul style="list-style-type: none"> Market entry of major vendors and consultants 	<ul style="list-style-type: none"> Retreat of corporate IT investment sentiment 	<ul style="list-style-type: none"> Market entry of BPO competitors

Toward the best breed of specialty businesses

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What we want to say on what is shown on this page is, as written, toward best breed of specialty businesses.

The diagram shows that we will continue to strengthen our model for pursuing a high market share and economies of scale in contributing areas, leveraging software.

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Review of FY21 initiatives

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- In response to the changes in the environment caused by the spread of COVID-19, we have begun to transform our cost structure in order to maintain the top line and to generate profits even if demand falls sharply.
- On the other hand, we are taking measures to create synergies within the Group, reform the organization, and secure human resources to support the expansion of stock sales in the medium to long term.

Consolidated Accounting Related Business	FY21 Actuals		<ul style="list-style-type: none"> ● Separate management of DivaSystem's development, implementation, and maintenance divisions and consulting business as in-house companies ● Secure and train consulting personnel ● Raise the ratio of in-house production and reduce unnecessary and unnecessary costs ● Closed unnecessary offices by reforming the way of working, mainly by telecommuting.
	Sales growth: -4%	GPP: 20%	
	OP margin: 24%		
	Recurring sales ratio	44%	
Business Intelligence Business	FY21 Actuals		<ul style="list-style-type: none"> ● Shifting from BI implementation to data platform construction in response to changing needs ● Some of the projects include data utilization from platform construction ● Started external sales of e-learning system for training engineers ● Challenges in achieving group synergies and raising the ratio of stock sales
	Sales growth: 8%	GPP: 21%	
	OP margin: 13%		
	Recurring sales ratio	9%	
Outsourcing Business	FY21 Actuals		<ul style="list-style-type: none"> ● Aggressively winning contracts for fiscal year-end outsourcing amid prolonged contract judgments due to the Corona disaster ● Thoroughly implement corona countermeasures in offices ● Decided to expand office to accommodate increase in personnel (FY22)
	Sales growth: 20%	GPP: 41%	
	OP margin: 21%		
	Recurring sales ratio	92%	

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Next is a review of last year, FY2021.

The COVID-19 affected our business to a certain extent in H1. However, in H2 of the fiscal year, we are facing more internal issues, such as structural transformation rather than environmental variables. In the last fiscal year, we have taken a number of measures both to protect ourselves against COVID-19 and to promote structural transformation aggressively.

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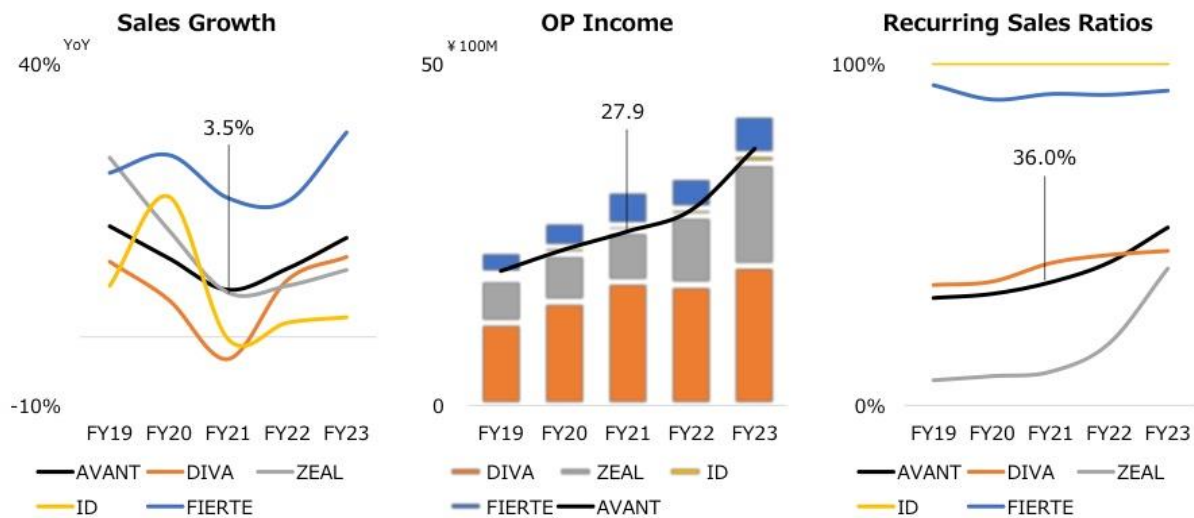
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Gap filling to achieve the mid-term plan

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- **Consolidated Accounting:** Sales of LCA to new customers, transition of existing customers to LCA, consulting sales of products and solutions for ESG management and disclosure support such as SMD, Compass, Empower, etc.
- **Business Intelligence:** Support customers in promoting DX, promote conversion of DX projects to ongoing BPO contracts, collaborate with AVANT, provide unique IP solutions including ZEUSCloud and e-learning, and strengthen human resource development
- **Outsourcing:** Accelerate growth by expanding the number of customers and diversifying the solutions provided, and invest in human resource development and efficiency improvement

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This is the fourth year of our current mid-term business plan, but there are still large gaps in each of the areas where we are aiming to achieve the mid-term business plan.

On the other hand, in the Consolidated Accounting business, we have started to take actions to expand our existing product line and increase the area of contribution to our customers.

In the area of Business Intelligence, we are also making progress in developing our own IP and are moving beyond the traditional BI domain to contribute to the data platform domain.

In the Outsourcing business, we will continue to expand the number of customers and utilize technology to create not only automation, but also new software development from this environment.

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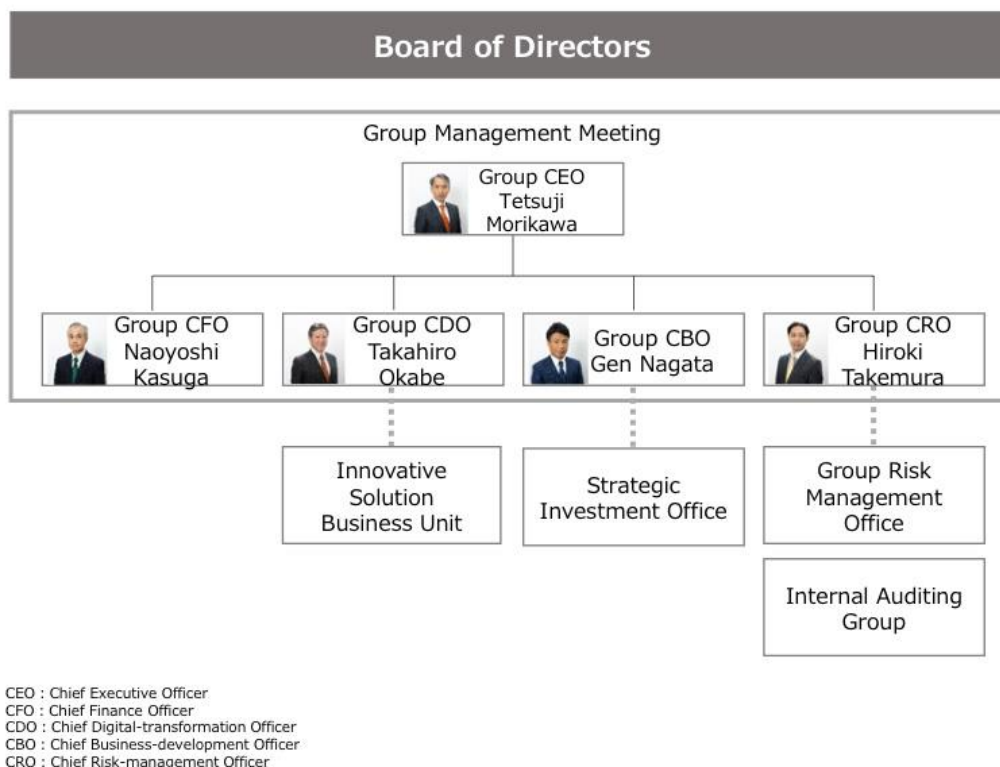
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New organization to drive group transformation

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Under these circumstances, we are taking various measures.

In order to create Group synergies for the AVANT Group, 1 of the major human resource measures we have taken this fiscal year is to increase 3 functions to Group CXO, whose role in promoting management, while thinking about the Group as a whole, was previously limited to the operation of CEO and CFO.

1 is the Group CDO, which is a newly established role in which Okabe, the representative of ZEAL Corporation, will oversee the role of providing DX to customers while utilizing the solutions of the entire Group.

The other is the Group CBO, which is business development. Nagata, who is the representative of FIERTE CORPORATION, will be in charge of creating new business opportunities in addition to providing customers with the comprehensive capabilities of what we already have, and will promote this new business in the future.

This is an offensive area, but there are also various risks that will arise as we increase the total volume of activities of the entire Group. Takemura, who is also the representative of DIVA CORPORATION, has been appointed as the Group's Risk Management Officer in order to solidify the protection of the Company.

In order to accelerate such activities to increase the value of the entire Group, we have set up this structure as the first phase of a major breakthrough in organizational growth, in which the people holding each position within the Company themselves will accelerate the process from the perspective of the entire Group.

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Initiative for Mid-term Plan “BE GLOBAL 2023”

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- Promote cloud-shift, focus on basis for top-line growth
- Launch proprietary IP based products & services to improve recurring sales ratio, strengthen consultant sales
- Options for M&A at operating company level to accelerate growth

	FY19 Actual	FY20 Actual	FY21 Actual	FY22 Forecast	FY23 Target
Net Sales (B yen)	14.07	15.69	16.23	17.82	18~22
Recurring Sales Ratio (%)	31.4	32.7	36.0	UP	70
OP Income (B yen)	1.96	2.27	2.79	2.86	3.1~3.8
Sales Growth + OP Margin (points)	30.2	26.0	20.7	—	Over 40
ROE (%)	24.6	23.5	23.6	—	Over 20
Dividends (yen)	7.5	9.0	11.0	12.0	Over 15

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The last one is the progress of the mid-term business plan, which is the forecast for FY2022.

As for sales, we are in line with the target for 2023. As for the recurring sales ratio, we still have a lot of issues. The trend is moving in that direction, but we are aware that we still have a major challenge in terms of gap filling.

We have set a certain range for operating income but are moving forward with a sense of direction to aim for the upper limit as much as possible.

The GPP for last fiscal year was below the target due to the impact of COVID-19, but we will continue to work toward the target.

In terms of ROE, we are currently maintaining our target, or rather a certain level of ROE.

From a DOE perspective, dividends have traditionally been in line with our plans.

As a whole, however, I feel that we are lagging behind in our structural transformation, but we will continue to catch up with filling the gap and make steady progress one by one toward realizing BE GLOBAL, a world-class software company, as I mentioned at the beginning of this report.

The above is an update of this mid-term business plan.

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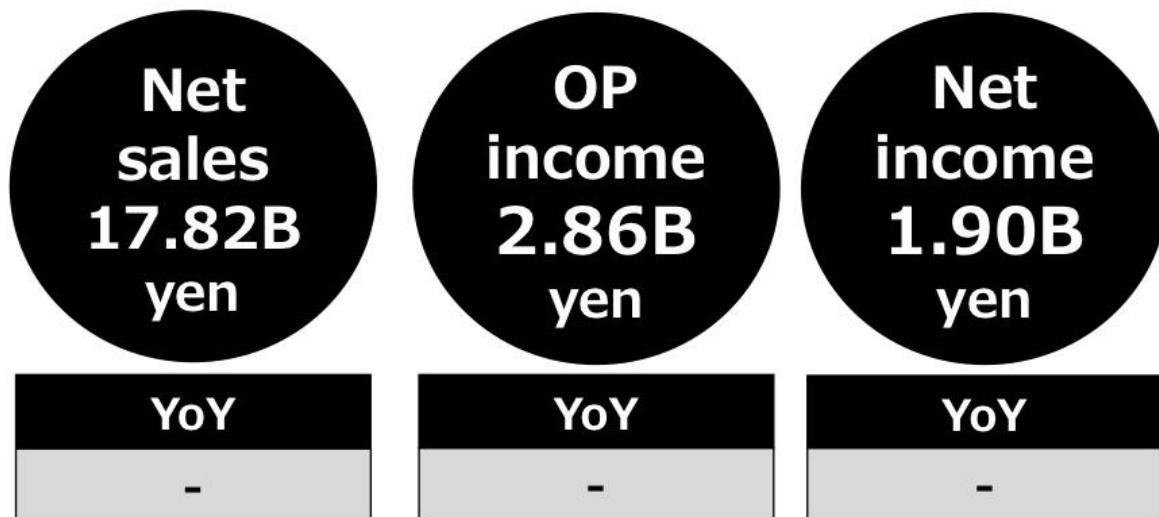
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Earnings forecast for FY June 30, 2022

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- Assuming that the impact of the expansion of COVID-19 will converge to some extent within 2021, and that economic activities of domestic companies will gradually start to normalize in 2022.
- Assuming an accelerated growth trend in all segments by strengthening our ability to understand customer needs and make proposals.
- Operating profit margin is expected to deteriorate slightly. This is because we will focus on strengthening product development and securing and training proposal-oriented human resources in order to accelerate the pace of stock sales increase to achieve the mid-term plan. Operating income is expected to increase, marking the seventh consecutive year of higher sales and profits.



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Kasuga: I'm Kasuga, the Group CFO. I would like to explain our financial strategy.

The Group CEO explained the progress of the mid-term business plan earlier, but I would like to explain for short term our business forecast for the current fiscal year ending June 2022.

As you can see, net sales is expected to be JPY17.82 billion, operating income JPY2.86 billion, and net income JPY1.9 billion. This is based on the assumption that the spread of the COVID-19 infection, which is currently spreading, will subside with time.

The latest Bank of Japan's Tankan and other reports do not necessarily give us an optimistic outlook for the economy. Although the outlook is still unclear, many companies are anticipating last fiscal year an increase in software investment. In this sense, I understand that we are in a tailwind situation for the software industry.

This forecast is based on that assumption. With regard to sales in particular, the current status of the pipeline, both orders received and backlog, is on an upward trend compared not only to last year, but also to the level before COVID-19 pandemic. Therefore, we expect sales to reach the figure shown here.

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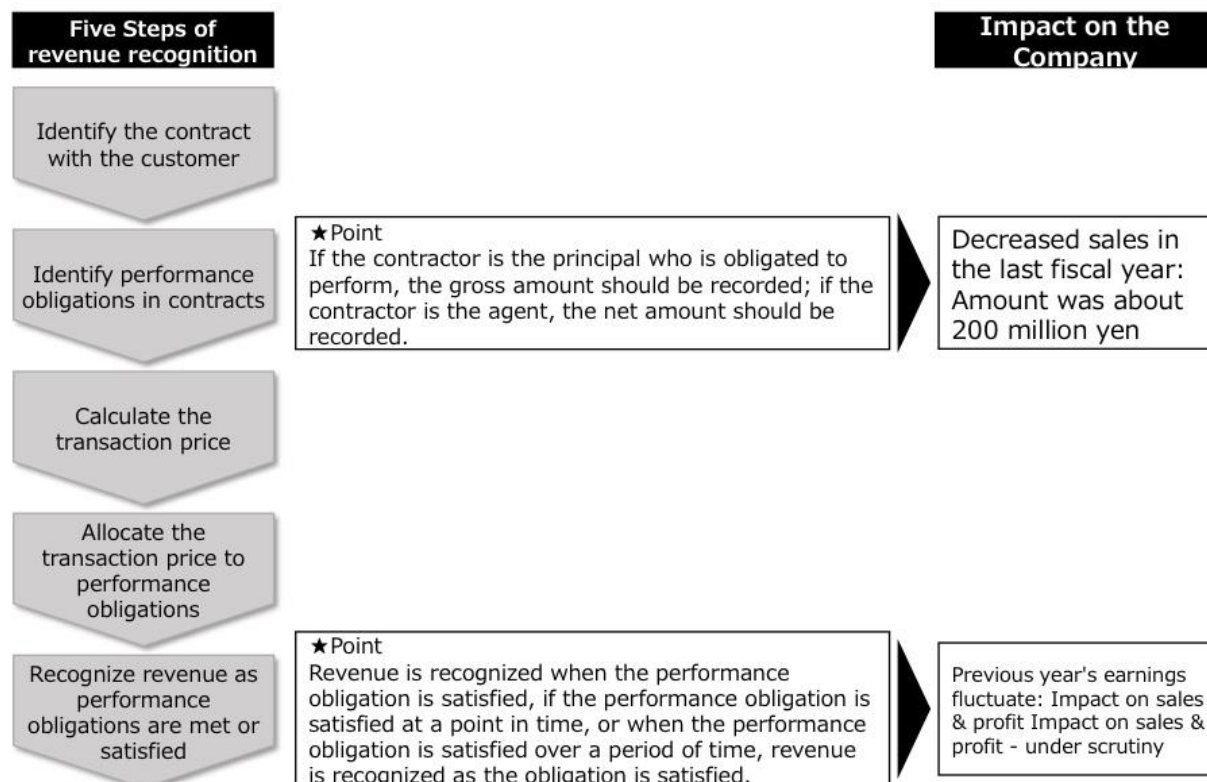
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Impact of the new revenue recognition standard

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This forecast is based on the new revenue recognition standard.

Although we have not included figures for YoY comparisons, the effects of the proxy transactions are becoming apparent to some extent.

As you can see here, the sales of the previous year will decrease. We expect that the amount will be in short by about JPY200 million in last fiscal year.

However, another impact on the previous fiscal year was the application of the percentage-of-completion method, which is the last factor. To be honest, we have not yet been able to examine the impact when this is taken into consideration. Therefore, at this point in time, we have not provided any figures for YoY comparisons in order to avoid misleading our shareholders and investors. However, we hope to provide this information as soon as possible after the completion of a thorough examination.

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Consolidated Accounting Related Business	<ul style="list-style-type: none"> ● Pace of sales increase accelerated due to expansion of products such as DivaSystem LCA, SMD, Compass, and DIVA Empower and proposal-based sales. ● Margins will be under downward pressure due to the increase in the number of staff to support the increase in sales, especially those who provide consulting services. ● Recurring sales ratio to increase.
Business Intelligence Business	<ul style="list-style-type: none"> ● Aggressive sales of data platform construction, data utilization, e-learning, etc., based on the trend of aggressive investment in DX ● While increasing the number of employees to support increased sales, some offices will be closed to maintain profitability due to the regularization of telecommuting. ● Recurring sales ratio to increase due to progress in BPO contracts
Outsourcing Business	<ul style="list-style-type: none"> ● Continued high level of growth expected due to a rash of new contracts at the end of the previous fiscal year and with the launch of services ● Operating profit margin is expected to decline temporarily due to aggressive investment in efficiency improvement. ● Recurring sales ratio will remain at a high level

This is an overview of each segment.

In the current fiscal year, we will focus on activities to increase the recurring sales ratio, especially in the Consolidated Accounting Related business and the Business Intelligence business.

In the Outsourcing business, the recurring sales ratio has been high since we originally created such a business model, but we will maintain this ratio while promoting operational efficiency by automation. As a result, we will be able to reduce the number of hires, although the effect will be more medium to long term than short term. We also believe that we will eventually be able to reduce or control labor costs.

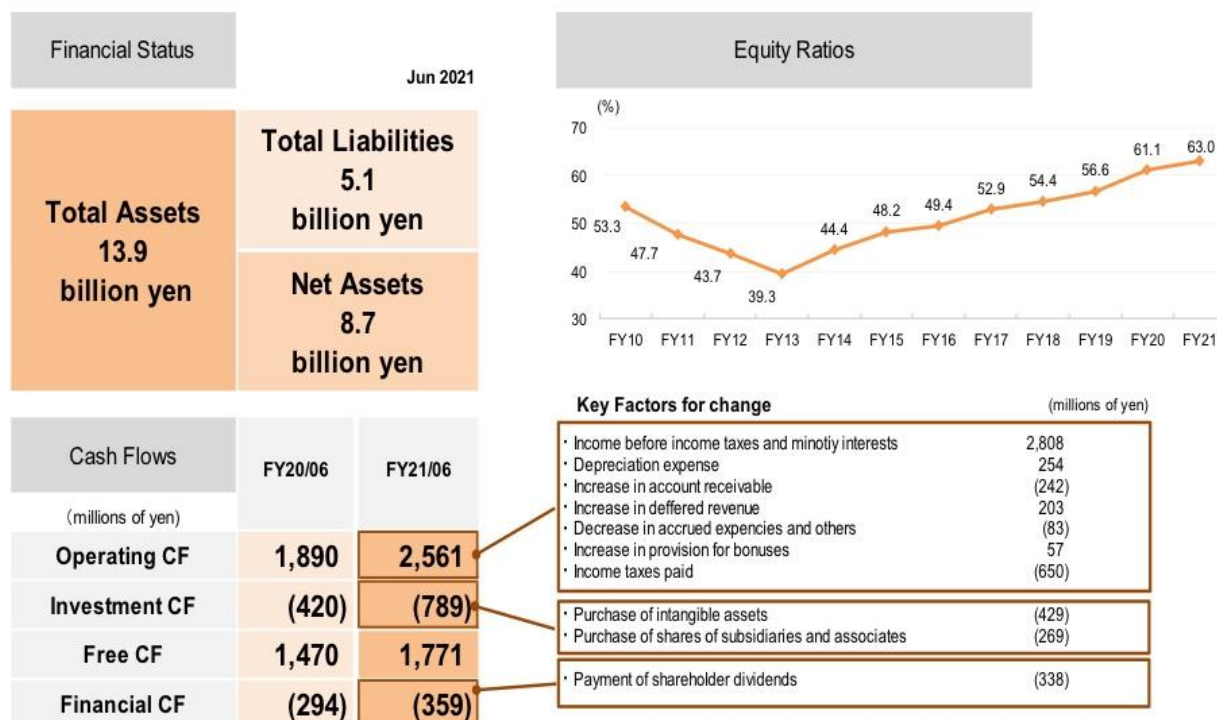
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Financial Condition & Cash Flows

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This is the status of our financial and cash flow.

In particular, net assets here are JPY8.7 billion, but assuming that we can achieve the plan for this fiscal year that I mentioned earlier, net assets will be over JPY10 billion by the end of the fiscal year ending June 2022.

The equity ratio is at a record high level of 63%.

Cash flow usually turns from negative to positive in Q1 and Q2 of each fiscal year, but this fiscal year, the effects of cost reductions were seen from the beginning. In that sense, cash flow was positive in all quarters including Q1 and Q2.

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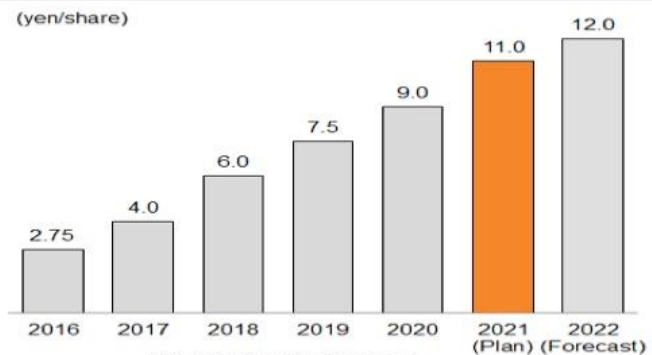
Shareholder Return Policy

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- The dividend for the fiscal year ending June 30, 2021 will be raised from 10 yen to 11 yen, an increase of 2 yen from the previous fiscal year, in consideration of better-than-expected full-year results; in line with the policy of maintaining stable dividends for the fiscal year ending June 30, 2022, the dividend is expected to increase for the seventh consecutive year to 12 yen per share.
- DOE for the fiscal year ending June 30, 2021 is expected to be 5.2%, much higher than the average (12-month) DOE of 2.7% for companies listed on the Tokyo Stock Exchange.

<AVANT's shareholder return policy>

- The Company regards dividends as an important part of its shareholder return policy.
- By focusing on indicators such as the ratio of dividends to net assets, we aim to maintain or increase the amount of dividends in a stable manner without being greatly affected by the business performance of each fiscal year.
- We will gradually raise the ratio of dividends to net assets to a level that is consistently higher than the average of all companies listed on the Tokyo Stock Exchange, and over the medium to long term, we will aim for 8%, which is the average of the top 10% of companies in terms of the ratio of dividends to net assets.



	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Plan	FY2022 Forecast
Dividends per share (yen)	2.25	2.75	4.0	6.0	7.5	9.0	11.0	12.0
DOE (AVANT)	3.25%	3.41%	4.18%	5.20%	5.27%	5.17%	5.18%	-
DOE (TSE Average)	2.43%	2.64%	2.70%	2.86%	2.93%	2.94%	2.72%	-

Note: The average ratio of dividends to net assets for companies listed on the Tokyo Stock Exchange is a weighted average of the monthly figures for the 12-month period ending in June.

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Lastly, I would like to explain our dividend policy and shareholder return policy.

There is no change in our dividend policy. There are 2 indicators that we are watching closely. 1 is the dividend on equity ratio, and the other is the amount of the dividends per share. Our goal is to raise both of these figures for the 2 KPIs.

In particular, at the beginning of the fiscal year, we stated that we would raise the absolute dividend amount, the amount of the dividend per share. At the recent financial result announcement, we announced the increase of dividend of JPY1, and the dividend forecast for the previous fiscal year is now JPY11 per share, subject to the approval by shareholders. For the fiscal year ending June 2022, we are aiming to increase it further by JPY1 to JPY12 per share.

The dividend on equity ratio varies depending on the amount of net assets. Therefore, we eventually would like to aim for a level of 8% for the ratio. This is 1 of the top 10% of listed companies on the Tokyo Stock Exchange, and we would like to raise the dividend on equity ratio in stages to achieve this level for the time being.

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Question & Answer

Nishimura: I would now like to start the question and answer session. We will answer the question 1 at a time.

Mr. Hiramatsu of Tokio Marine Asset Management Co., Ltd., please go ahead.

Hiramatsu: Thank you for all your help. I have 2 questions.

The first is Metapraxis's Japanese language software, which you didn't talk about today. I overheard that the Japanese version was completed earlier than expected, and you are going to start marketing. I would like to know a prospect of how the sales will be promoted. Also, I would like to know whether you were able to produce good product. Please let me know this point, first.

Morikawa: First, let's talk about meta. We officially released the product in August and are now in the process of marketing it. For the first 6 months after the release, we have not set up a very aggressive business plan, but we will continue our dialogue with our customers, or rather, we will continue to carefully assess how we can actually help them.

In terms of changing the standpoint to group governance, which we have been working on since last fiscal year, there is a strong sense of expectation for a solution to actually visualize KPIs, et cetera, and we have started proposal activities. In fact, I think we will see results in the middle of Q2.

Hiramatsu: Thank you very much. The second question is about the Consolidated Accounting. You mentioned that you will work on "spreading accountability."

In a sense, I think this is a matter of popularizing specialized information that used to be available only to the finance department so that everyone from corporate planning to salespeople can see it. In that case, naturally, the target of sales will change from the Finance to the Corporate Planning or Management itself. I hate to say it, but someone told me that it would take 5 years to DX a Japanese company, and during that time, the world would change and the company would probably go out of business.

In this situation, how can your company market with high consultative capabilities? How do you develop and acquire these human resources? Companies such as BayCurrent Consulting, Inc. and SHIFT Inc. are all racking their brains to acquire people, and they are making a mad dash to get them as soon as possible before COVID-19 converges once.

I'm afraid that if you lag behind at this point, it will determine the [inaudible] of the Company in the future. What is the human resource strategy you are taking under these circumstances?

Morikawa: 1 of the key points that differentiates us from the consulting companies you mentioned is that we have narrowed down our business domain considerably. We could make our business domain broader from the perspective of the "spreading accountability," but the point is that we have narrowed it down considerably to basically an information environment that contributes to the enhancement of our customers' corporate value.

The other thing is to bring it to success. We are focusing on solutions that are not simply services, but that eventually lead to SaaS-like or cloud-based software. Therefore, although the population of people who are interested in such things is small, when they get hooked, they are extremely capable. Sometimes it appeals straight into what they wanted to do.

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In that sense, in terms of acquiring human resources, we are trying to differentiate ourselves from other companies by growing in niche areas so that we can attract people with strong interests in those areas.

We don't need such a large number of people. We will only need a handful of people who are capable enough to communicate with customers who were not able to knock on our door in the past, because we have an implementation unit in our organization that can take over the task and implement it.

Rather than hiring a large number of people, we are trying to attract people who have a strong interest in the thematic areas that we mentioned earlier, and to expand our proposals by these selected people. In fact, those people are steadily increasing, albeit less than dozens.

Hiramatsu: Thank you very much. I was greatly relieved to hear that the number is gradually increasing.

Lastly, I would like to ask you, Mr. President, what is the value of staying connected with your company from the perspective of both your current customers and the customers you plan to expand in the future?

Of course, that's where I stop thinking when I hear the phrase "improving corporate value," but what exactly does that mean? In other words, your employees are happy, but is it correct that you will make their employees happy as well? It is the matter of whether they can actually feel that they are growing or something like that.

If there is actual value, how can you have a point of contact where people can experience and feel it, and how can you make customers feel it?

It will be something like, for example, if we install your system to our company, our salary per employee will increase in 3 months, our ROE will increase, our ROIC will become available for everyone, or we will not be nagged at the shareholders' meeting. What exactly does it mean? I think that these 2 things are important. How do you appeal to investors, potential customers, and existing customers?

Morikawa: The image I have is that of a corporate planning department that can take unreasonable requests. The environment is changing rapidly, and management information, for example, and the information needed is changing rapidly. From the perspective of company managers, they have various needs, as they want this and that. In addition, in terms of external disclosures, they need to gather various information to respond to new disclosure requirements, including those for ESG.

In order to fulfill these needs only by internal resources, there must be various issues such as skills, the number of people, and so on.

In this aspect, our customers can throw these issues on us in the changing environment of using management information, and we ourselves will support them. The value to our customers is that we aim to position ourselves like a corporate planning department that can take all these issues.

There are many ways to describe it, but software-based BPO is the core of our business model, and its role is to continue to support our customers' business no matter how far we go. In addition, we believe that it is beneficial for our customers to have a position where we can provide support in the same way as the people inside the Company, rather than as external support.

Hiramatsu: Thank you very much. Very easy to understand. You will always be with the customers to grow together and will not stop their unreasonable requests. I understand.

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Lastly, I would like to request a consolidated accounting software that can automatically calculate TCFD. For instance, something like with scenarios 2.5% or 3%. I think this will sell like hotcakes. We are all frustrated about it. Thank you very much for your time. I ask for your continuous support.

Morikawa: Thank you very much.

Nishimura: Thank you very much. Does anyone have any other questions? Then, Mr. Ito, Ichiyoshi Securities.

Ito: My name is Ito. First, on page 5 of the presentation, under the heading of “TAM for Consolidated Accounting Related business,” I believe you disclosed a breakdown in bar graph form. I believe that subscription of SMD and Cloud services represented in orange have been growing recently. I would like to have the breakdown to see whether SMD is growing or Cloud is growing?

In particular, the unit price of SMD is very high, and I think that expanding this area will lead to very good results in the areas where your company needs more consulting human resources. Once again, could you please tell us about the status of this orange area?

Morikawa: SMD is growing more in terms of value. On the other hand, Cloud services is growing in terms of the number of cases. On the Cloud side, we are also replacing the software that you have been using. Therefore, the transition to the new cloud-based DivaSystem that was released last year is currently progressing. In terms of the overall business, the shift to the Cloud is progressing at a certain level so as not to cause too much of a decline. However, going back to the previous question, the actual situation is that SMD is growing in terms of value.

Ito: Thank you. How is the progress of cross-selling in SMD?

Morikawa: Until last year, we had not been strongly promoting cross-selling itself. On the other hand, in light of last year’s customer situation and other factors, we are now at the stage where we are promoting sales activities with a clear and strong push for cross-selling itself from this fiscal year. The penetration rate itself is still extremely low, so in other words, I think there is a lot of room for growth.

Ito: In that case, what do you think will be the key to solid growth of SMD this fiscal year?

Morikawa: The ability to make sales proposals is the first step. Rather than simply selling SMDs by themselves, we need to be able to propose that SMD information is also needed in a larger context, taking into account the current situation of the user. Strengthening our ability to make such proposals in this area has become a very big issue or theme for us.

Ito: Thank you. Secondly, you explained that you have created the CXO position, and I think you are assigning management staff from each subsidiary to the CXO position. I felt that the intention was to have them expand the perspective to include not only each group, but also the entire company. Could you explain the background of the change from the previous CEO and CFO structure to this new structure?

Morikawa: This may sound a bit abstract, but I think that in order for a business to continue to grow, it is necessary for the organization to go through a period of discontinuity, or rather, undergo the breakthrough. We ourselves aim to be a world-class software vendor. In order to achieve this goal, we have adopted a method that involves a number of steps.

In the midst of this phase, we are now entering a phase where we need to resolve new themes, such as how to build a system that makes full use of our collective strengths, rather than just having each company promote its own business and become independent.

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In order to resolve this new theme, naturally, inviting external people who are on the position of CXO is 1 way. However, in a sense, our current business itself is centered on the first generation, or rather, the members who have worked together through the past changes. In this phase, before inviting people from the outside, it is easier to achieve results if the people inside the Company themselves experience new positions and expand their fields, so we took that option first.

In fact, I think taking such option will make it easier to obtain various kinds of support from outside the Company. Therefore, I would like you to understand that we have taken the first step of promoting people within the Group to take on the role of CXO for the Group.

Ito: Thank you. Lastly, regarding your plan for this fiscal year, you mentioned earlier that you would like to challenge the upper limit of the profit target for FY2023. Given the fact that sales are growing steadily, I think your forecast for this fiscal year includes a certain amount of upfront investment for growth in order to achieve the upper limit of operating income in the next fiscal year and beyond.

Could you give us a brief description of the specific areas in which you are making upfront investments in order to achieve the profit ceiling for the next fiscal year and beyond?

Morikawa: Kasuga, the CFO, will answer this question.

Kasuga: As the CEO explained earlier, I actually believe that our growth is based entirely on our people. In this sense, we will also be hiring consultants for the consulting business, and in this sense, they will be 1 or 2 layers above the level we have hired in the past, in terms of compensation level.

We are also considering hiring such people, and in addition to that, we consider the replenishment of human resources as our main investment. Since we are not able to capitalize human resources themselves, they will disappear as expenses, unfortunately. However, our plan for this year includes such expenses.

Morikawa: This time, as an extension of the structural reform, we established the Compensation and Nomination Committee. In a sense, until now, compensation has been determined within the Company based on a variety of balances, while there has been some logic to it naturally. That is how it has been managed until now.

In a sense, this is the first time that the information was made fully open to the outside, and we had a very constructive discussion about what kind of approach has been taken to set up the current level, and, in addition, what kind of numbers we should set in consideration of the future management system.

In this respect, as Kasuga mentioned, we are making progress in developing an environment that will enable us to obtain strong external support, although it is difficult to see. Based on this situation, we are now at the stage where we have set the budget after properly preparing the system, and are now in the process of acquiring the budget.

Ito: Thank you very much.

Nishimura: Is that okay? If there is anyone else who has the question, please raise your hand again.

Now, we received a question. Mr. Kris Vidane of Eightfold Research Limited. Thank you.

Vidane: I'm Kris Vidane. My question is about the recurring sales ratio. On page 12, considering the target for FY2023 and the current situation, the plan is to raise current 36% to 70% as stated on the material. The hurdles seem very high, but since you are not reviewing the targets, should we understand that they are highly achievable? In addition, could you tell me what specifically you are thinking to the extent you can?

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This is a related question. On page 9, the recurring sales ratio is listed for 3 businesses of Consolidated Accounting. For example, the Business Intelligence business's recurring sales ratio is currently 9%, but you are thinking of raising that level. I mean this kind of thinking. Do you intend to increase the recurring sales ratio of business that has low ratio currently?

Morikawa: First, we have not changed our target of 70% by FY2023, but we are now moving forward with the recognition that we need to adjust the time frame.

In terms of why we are aiming for 70%, it is important to build a pipeline that can produce the software itself eventually. The environment for this is to increase the number of outsourcing-based, rather than project-based, ways of interacting with customers. By doing this, we are trying to create a pipeline for software production and become a company that can produce software that can be used by many customers.

That is our major objective. When we focus on how to build the pipeline, it is not enough to simply achieve the 70%. In the past, I was telling you that it was still a question of how to build the software pipeline, and we did not have an image. Over the last year, we have made some progress in searching for a way to create a pipeline by taking some kind of approach. We are currently looking for ways to change the composition of the overall time axis while making progress in this area.

As for the question of where to raise, we will raise the BI business itself, but the biggest impact on the overall business will be how far we can raise DIVA in the Consolidated Accounting business, which is the mainstay of the software package. That is what we will focus on.

We discussed earlier SMD and Cloud services, and they will be very important drivers to increase the recurring sales ratio. I think that accelerating the momentum in this area a bit more is also a very important point.

Vidane: Thank you very much.

Nishimura: Is that okay? If anyone else has questions, please press the raise button. Anybody? We still have some time left. As there are no further questions, I would like to conclude the briefing. Thank you very much for today's briefing.

Today's video will be archived on our website at a later date. We will also be uploading a script that includes this question-and-answer session along with the materials.

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